

Message Text

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ACTION EB-08

INFO OCT-01 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00

FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00

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ARA-10 EA-10 EUR-12 NEA-11 JUSE-00 ISO-00 OIC-02

IO-13 /169 W

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R 221738Z MAY 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6380

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY CANBERRA

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ALL EC CAPITALS

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USMTN

E.O. 11652: N/A

TAGS: EPAP, ETRD, EAGR, ISO

SUBJECT: SUGAR -- COUNCIL AND EXECUTIVE BOARD SESSIONS
OF THE INTERNATIONAL SUGAR ORGANIZATION (ISO)

REF: (A) LONDON 7698 (NOTAL); (B) LONDON 7746 (NOTAL);
(C) LONDON 4327 (NOTAL).

1. SUMMARY: THE SECOND SESSION OF THE COUNCIL OF THE
INTERNATIONAL SUGAR ORGANIZATION (ISO) UNDER THE INTER-
NATIONAL SUGAR AGREEMENT (ISA) OF 1977 COMPLETED ITS
WORK ON MAY 18 AFTER COVERING A 19 ITEM AGENDA. HIGH-
LIGHTS INCLUDED: (A) DISCUSSION OF THE RESERVATIONS
MADE BY SEVERAL MEMBERS, ESPECIALLY THAT OF THE USSR;
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(B) STATUS OF RATIFICATION OF THE AGREEMENT BY VARIOUS
GOVERNMENTS; (C) ESTABLISHMENT OF THE GLOBAL QUOTA AT
11,780,000 METRIC TONS; (D) ADOPTION OF THE RULES OF
PROCEDURE FOR THE AGREEMENT; (D) APPOINTMENT OF WILLIAM
K. MILLER (U.S.) AS THE NEW EXECUTIVE DIRECTOR AND JOSE
BREUIL GALIGARCIA (CUBA) AS THE STOCK FUND MANAGER;
(E) ESTABLISHMENT OF A COMMITTEE TO CONSIDER A DOMINICAN
REQUEST FOR A LARGER QUOTA THAN IT RECEIVED AT THE
NEGOTIATING CONFERENCE; AND (F) CREATION OF A WORKING
GROUP TO DEAL WITH THE QUESTION OF EC MEMBERSHIP. THE
COUNCIL ENDED ON AN UPBEAT NOTE, WITH A GENERAL BELIEF
AMONG MOST DELEGATES THAT THE NEW ISA IS NOW OFF TO A
REASONABLY GOOD START AND HAS A GOOD CHANCE OF LIFTING
WORLD SUGAR PRICES INTO THE 11-21 CENT RANGE WITHIN A
REASONABLE TIME FRAME. END SUMMARY.

2. ISA MEMBERSHIP. 27 OF THE 51 ISA MEMBERS HAVE NOW
FULLY RATIFIED THE AGREEMENT. AMONG ADHERENTS SINCE THE
LAST COUNCIL SESSION ARE PAKISTAN, BOLIVIA, THE GERMAN
DEMOCRATIC REPUBLIC, NORWAY, THE DOMINICAN REPUBLIC,
MOZAMBIQUE, PARAGUAY, BULGARIA AND BANGLADESH. IRAQ
AND TANZANIA ARE EXPECTED TO COMPLETE ENTRY PROCEDURES

SHORTLY. JAPAN AND THE U.S. DELS NOTED THEY ARE REASON-
ABLY CONFIDENT THEIR GOVERNMENTS WILL RATIFY THE ISA
BY JULY 1, 1978; NEWS WHICH WAS WELL RECEIVED SINCE
MANY OTHER COUNTRIES ARE AWAITING THEIR DECISIONS
BEFORE RATIFYING. ON THE POSSIBILITY THAT SOME MEMBERS
MIGHT NOT BE ABLE TO RATIFY BEFORE JULY 1, 1978, THE
EXECUTIVE BOARD SCHEDULED A MEETING FOR JUNE 15, WHERE,
IF CIRCUMSTANCES REQUIRE AT THAT TIME, A SPECIAL COUNCIL
SESSION WOULD BE CALLED FOR LATE JUNE TO CONSIDER EX-
TENDING THE TIME LIMIT FOR THE DEPOSIT OF CONSTITUTIONAL
INSTRUMENTS.

3. RESERVATIONS. AT THE JANUARY SESSION OF THE SUGAR
COUNCIL THE USSR STATED THAT ITS RESERVATION ON THE
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PROVISION "RELATED TO STOCKS" APPLIED AS WELL TO STOCK
FINANCING. COUNCIL MEMBERS WERE IN AGREEMENT THAT THE
LANGUAGE OF THE USSR RESERVATION WAS NOT ACCEPTABLE AS
AN EXCUSE TO AVOID ENFORCEMENT OF THE FEE PAID INTO THE
STOCK FINANCING FUND. THROUGH DISCUSSIONS AT THIS
COUNCIL SESSION DETERMINED THE RESERVATION IS ESSENTI-
ALLY THE SAME AS THAT EXPRESSED BY THE USSR IN REGARD
TO THE 1968 ISA, WHICH ONLY COVERED STOCK HOLDINGS AND

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FM AMEMBASSY LONDON
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INFO AMEMBASSY BUENOS AIRES
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ALL EC CAPITALS
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THE SIZE OF MAXIMUM STOCKS. AFTER CONSIDERABLE INFORMAL
GROUP AND CORRIDOR NEGOTIATIONS, THE SOVIETS ASSENTED TO
A STATEMENT BY THE CHAIRMAN OF THE COUNCIL (EL-BOUS OF
EGYPT) THAT: (1) SOVIETS INTENDED THEIR RESERVATION TO

STAND ON ITS OWN TERMS; (2) COUNCIL UNDERSTOOD THE RESERVATION "INsofar AS IT RELATED TO STOCKS AND TO MAXIMUM STOCKS "; (3) THAT, WITH THIS UNDERSTANDING, SOVIET RESERVATION FELL WITHIN ARTICLE 78 PARAGRAPH 2 AND REQUIRED NO COUNCIL ACTION; AND (4) THAT THE COUNCIL CHAIRMAN ASSUMED THESE VIEWS WERE ENDORSED BY THE COUNCIL AND WOULD BE INCLUDED IN THE RECORD OF PROCEEDINGS. THE SOVIETS DID NOT WISH TO STATE DIRECTLY THAT THEY ACCEPTED STOCK FINANCING OBLIGATIONS, BUT NOTED THIS WAS UNNECESSARY SINCE THE FORMULA IN (2) ABOVE LIMITED OFFICIAL USE

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REFERS TO HOLDING AND NOT TO "FINANCING" OF STOCKS. FULL TEXT OF CHAIRMAN'S STATEMENT BEING HAND CARRIED BY ROH, L/EB.

4. THE EC AND THE NON-MEMBER QUESTION. THE EC OBSERVER (EATON) STATED THE EC HAS AN ACTIVE INTEREST IN JOINING THE ISA UNDER ARTICLE 76, DEPENDING ON THE NATURE OF THE EQUIVALENT DISCIPLINES IT IS EXPECTED TO UNDERTAKE IN LIEU OF EXPORT QUOTAS. EXPLORATION OF THE POSSIBILITIES IS THE NEXT STEP. HE REQUESTED THAT THE ISO ADVISE THE EC ON HOW IT WISHES TO PROCEED WITH MAXIMUM EFFECTIVENESS AND A MINIMUM OF FORMALITY. THE EXPORTER REACTION TO THE EC INTERVENTION WAS IMMEDIATE AND DRAMATIC. THE LONG PENT-UP ANGER OF EXPORTERS AT THE EC ROLE IN THE NEGOTIATIONS AND LACK OF MEMBERSHIP EXPLODED, LED OFF BY AUSTRALIA AND SUPPORTED BY CUBA AND ARGENTINA, BUT TACITLY BACKED BY OTHERS. IMPORTANT PARTS OF THE AUSTRALIAN STATEMENT INCLUDE:

"... THE EC STATEMENT DOES LITTLE TO DIMINISH OUR CONCERN AT THE CONTINUED LACK OF A CONSTRUCTIVE AND RESPONSIBLE ATTITUDE BY THE COMMUNITY TOWARDS THE AGREEMENT.

AUSTRALIA IS ANXIOUS TO COOPERATE WITH OTHER MEMBERS AND THE COMMUNITY TO ESTABLISH A MUTUALLY ACCEPTABLE BASIS FOR EC PARTICIPATION IN THE ISA.

IT IS AN UNDENIABLE FACT THAT EC NON-MEMBERSHIP IS FRUSTRATING THE OPERATION OF THE ISA IN ITS OBJECTIVE OF BRINGING STABILITY AND A BETTER PRICE RESPONSE TO THE WORLD SUGAR MARKET.

UNDER THE STIMULUS OF ARTIFICIALLY HIGH LEVELS OF PRICE SUPPORTS AND COMPLETE INSULATION FROM THE FREE MARKET, THE EEC EXPORT AVAILABILITY OF SUGAR HAS INCREASED FROM VIRTUALLY NOTHING A FEW YEARS AGO TO SOMETHING NOW APPROACHING 4 MILLION TONNES IN 1977/78.

IN A SITUATION WHERE OTHER EXPORTERS - MOST OF WHOM ARE DEVELOPING COUNTRIES HEAVILY RELIANT ON SUGAR AS AN LIMITED OFFICIAL USE

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EXPORT EARNER - HAVE SHOULDERED THE DISCIPLINES AND THE BURDEN OF SEEKING TO CORRECT THE MARKET IMBALANCE BETWEEN SUPPLY AND DEMAND, THE VIRTUAL TOTAL LACK OF RESTRAINT BY THE EEC IN DISPOSING OF ITS EXPORT SURPLUS

.... BORDERS ON THE IRRESPONSIBLE.

IT IS HARD TO RECONCILE THE SUSTAINED NON-MEMBERSHIP OF THE EEC WITH THEIR CONTINUED ADVOCACY OF INTERNATIONAL COMMODITY STABILISATION AGREEMENTS. ON THE VERY FIRST OCCASION WHERE DISCIPLINES UPON THEM WOULD BE INVOLVED - THEY WITHDREW.

IN UNCTAD, THE EEC POSITION ON THE COMMON FUND - CONSIDERED VITAL BY THE DEVELOPING WORLD - IS THAT THE FUND SHOULD BE BASED ON THE POOLING OF ICA FUNDS - TO WHICH THEY DO NOT CONTRIBUTE TO ANY SIGNIFICANT EXTENT.

IN SHORT, MR. CHAIRMAN, THE EEC COMPLETELY LACKS CREDIBILITY IN ITS ATTITUDE TOWARDS INTERNATIONAL COMMODITY STABILISATION ARRANGEMENTS. WE HOPE AND URGE THAT THIS CREDIBILITY BE RE-ESTABLISHED TO THE BENEFIT OF US ALL."

5. ONCE EXPORTERS VENTED THEIR ANGER, THE COUNCIL SET UP A WORKING GROUP CONSISTING OF AUSTRALIA, ARGENTINA, BRAZIL, CUBA, CANADA, JAPAN, MAURITIUS AND THE U.S. TO PROVIDE A PROCEDURAL FRAMEWORK FOR DEALING WITH EC MEMBERSHIP.

6. THE COUNCIL SET THE GLOBAL EXPORT QUOTA AT 11,780,000 METRIC TONS, CALCULATING NET FREE MARKET IMPORT REQUIREMENTS AT 16,080,000 METRIC TONS. THE EXECUTIVE COMMITTEE REPORTED THEIR ASSUMPTION THAT SUBSTANTIAL EXPORTER SHORTFALLS WOULD BRING EXPORT SUPPLY INTO LINE WITH THE GLOBAL QUOTA, LEADING THE WORLD MARKET PRICE INTO THE ISA RANGE BY THE END OF THE YEAR.

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R 221738Z MAY 78
FM AMEMBASSY LONDON
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7. THE COUNCIL APPROVED THE RULES OF PROCEDURE. AFTER 7 MONTHS OF INTENSE EFFORT IN A WORKING GROUP UNDER THE DIRECTION OF THE CHAIRMAN OF THE EXECUTIVE COMMITTEE, THE COUNCIL APPROVED THE RULES OF PROCEDURE. THE RULES ON CHAPTER XII, COVERING STOCKS AND THE STOCK FINANCING FUND, WERE IMMEDIATELY PRINTED SO DELEGATES COULD RETURN WITH COPIES FOR THEIR AGENTS AND CERTIFYING AUTHORITIES.

8. APPOINTMENT OF NEW EXECUTIVE DIRECTOR. THE COUNCIL APPOINTED WILLIAM K. MILLER (U.S., CURRENTLY MINISTER FOR ECONOMIC AND COMMERCIAL AFFAIRS, EMBASSY LONDON) AS THE NEW EXECUTIVE DIRECTOR OF THE ISO, REPLACING LIMITED OFFICIAL USE

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ERNEST JONES-PARRY. MR. MILLER TAKES OFFICE ON SEPTEMBER 1, 1978. JONES-PARRY WILL SERVE UNTIL AUGUST 31, 1978, AFTER WHICH HE WILL CONTINUE IN A CONSULTANT CAPACITY UNTIL DECEMBER 31, 1978, RECEIVING ONE HALF HIS NET SALARY AS RENUMERATION. THE APPOINTMENT OF MR. MILLER MAKES HIM THE FIRST U.S. CITIZEN TO HEAD A LONDON-BASED COMMODITY ORGANIZATION. THE APPOINTMENT IS AT THE UNDER SECRETARY GENERAL LEVEL ON THE UN SCALE. (SEE REFTEL B).

9. APPOINTMENT OF STOCK FUND MANAGER. JOSE BREUIL GALIGARCIA (CUBA, CURRENTLY THE CUBAN NATIONAL BANK REP. IN TOKYO) WAS APPOINTED AS MANAGER OF NEWLY CREATED STOCK FINANCING FUND. HIS APPOINTMENT IS AT THE D 2 LEVEL OF THE UN SALARY SCALE. BOTH APPOINTMENTS ARE FOR 3 YEARS WITH ANNUAL RENEWALS AT COUNCIL DISCRETION THEREAFTER.

10. DOMINICAN REPUBLIC REQUEST FOR A LARGER QUOTA. AS THE LAST ITEM OF BUSINESS THE DOMINICAN REPUBLIC REVIEWED ITS SITUATION WITH REGARD TO THE ISA. EXCERPTS FROM THE HIGHLY ARTICULATE STATEMENT MADE BY DELEGATE FELIPE VICINI ARE PARAPHRASED BELOW:

AS A SMALL DEVELOPING COUNTRY HIGHLY DEPENDENT ON ITS SUGAR TRADE AND LIMITED OPPORTUNITIES FOR DIVERSIFIED ECONOMIC GROWTH, WE COULD IN ALL JUSTICE ASPIRE TO A SITUATION WITHIN THE AGREEMENT OF RELATIVE COMFORT. I DO NOT MEAN THE OPPORTUNITY FOR EXPANSION, BUT SIMPLY, SUFFICIENT OUTLETS FOR OUR PRODUCTION.

IN GENEVA WE PROPOSED A 1,250,000 TON QUOTA FOR THE DR AND QUOTA CUTS BASED ON A LIMITED STATED PERCENTAGE OF PRODUCTION. NEITHER PROPOSAL RECEIVED DUE CONSIDERATION. INSTEAD OF RELATIVE COMFORT, THE DR SITUATION IS PHYSICALLY UNTENABLE.

THE DR STARTED 1978 WITH A 153,000 TON STOCK; PRODUCTION WILL BE 1,325,000 TONS, DOMESTIC CONSUMPTION 173,000 LIMITED OFFICIAL USE

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TONS, AND THE EXPORT ENTITLEMENT IS 935,000 TONS. BY THE END OF THE PRESENT YEAR STOCKS WILL RISE TO 370,000 TONS, WHICH IS MORE THAN TWICE THE DR SPECIAL STOCK OBLIGATIONS AND MORE THAN TWO-THIRDS OF THE PHYSICAL SPACE AVAILABLE.

NOTWITHSTANDING THE ABOVE, THE DR SIGNED THE AGREEMENT IN ORDER TO DEMONSTRATE ITS IDENTIFICATION WITH ITS PURPOSES AND OBJECTIVES. SUBSEQUENTLY, THE FACT THAT MANY COUNTRIES SIGNIFIED THEIR SYMPATHY AND SUPPORT FOR A CORRECTION OF OUR SITUATION ENCOURAGED US TO MAKE PROVISIONAL APPLICATION IN ORDER TO SEEK AN ADEQUATE SOLUTION TO THE PROBLEM WITHIN THE FRAMEWORK AND PROVISIONS OF THE AGREEMENT.

MANIFESTLY, IT HAS BEEN OUR INTENTION TO EXHAUST EVERY

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EVERY POSSIBLE OPPORTUNITY OF ACHIEVING A MEANS WHEREBY WE COULD REMAIN WITHIN THE ISA, EVEN THOUGH THE SOLUTION MAY BE OF AN INTERIM NATURE.

11. THE GUATEMALAN DELEGATE (MONTES) SUPPORTED THE DR CASE AS MERITING CAREFUL CONSIDERATION. HE PROPOSED A WORKING GROUP TO CONSIDER THE SITUATION, INCLUDING AUSTRALIA, BRAZIL, CUBA, GUATEMALA, MAURITIUS, CANADA, JAPAN, SWEDEN AND THE U.S.; GROUP WOULD BE CHAIRED BY EL-BOUS, WITH DOWLING (EXECUTIVE COMMITTEE CHAIRMAN) AS AN EX-OFFICIO MEMBER. THE PROPOSAL RECEIVED WIDE SUPPORT. THAILAND AND EL SALVADOR AGREED WITH THE SUGGESTION AND REQUESTED THE MANDATE OF THE GROUP TO BE EXPANDED TO INCLUDE OTHER CASES, NAMELY THEIR OWN. THE LIMITED OFFICIAL USE

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TERMS OF REFERENCE WERE LEFT VAGUE SO THIS POSSIBILITY COULD BE EXPLORED. COSTA RICA (DELLALE) MADE AN INTERVENTION TO THE EFFECT THAT MEMBERS HAVE A RIGHT TO PETITION THE ORGANIZATION BEFORE NEGOTIATIONS BEGIN WITH NON-MEMBERS (READ EC). THE WORKING GROUP WILL REPORT BACK TO THE NEXT COUNCIL SESSION.

12. THE NEXT REGULAR SERIES OF MEETINGS WILL TAKE PLACE BETWEEN NOVEMBER 13 AND 23, CAPPED BY A COUNCIL SESSION NOVEMBER 22 AND 23.

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To: STATE USMTN MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/20bc8a99-c288-dd11-92da-001cc4696bcc
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